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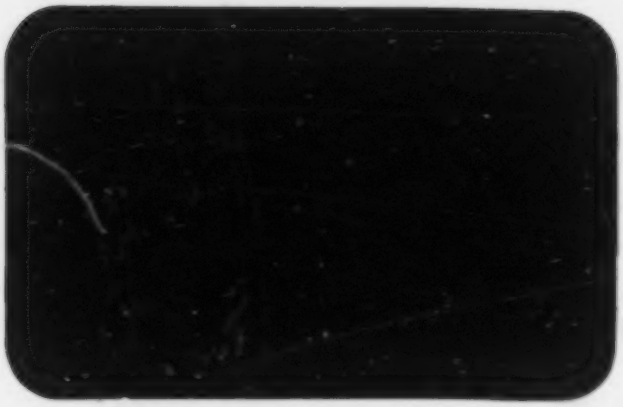

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This forecast uses the October 20, 1984, U.S. Department of Commerce first estimates of 1984:3 National Income and Product data. Also used is the October 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production,and the latest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

Growth will slow in 1985 because pent-up demand has been largely satisfied, the federal budget deficit size will be adding less to demand, and the business cycle of investment is passing its peak. REAL GROWTH Evidence of slowing continues with such areas as construction and machine tools moving ahead and new orders for durables moving down while productivity remained the same. PRICES The forecast data remains the same but the change in the data base alters the percentages. The Consumer Price Index for All Urban Consumers will now be used so inflation this year is projected at 4.3 percent and for next year, 4.7 percent. EMPLOYMENT AND LABOR The jobless rate will hover around 7.4 percent through next year. Look to about 2 million new jobs next year with three-fourths of those being in service-producing industries. HOUSING Expect single-family starts to rise 2.5 percent this year over last year and anticipate a decline of around 10 percent in 1985. Improvement will not begin before 1987. AUTOMOBILES There is a slight change in the forecast upwards for the first part of 1985, but the trend remains the same with this year being the peak for car sales. BUDGETS The forecast is the same with federal deficits seen as edging down toward $150 billion by 1987 and state and local surpluses projected as continuing to expand. A Constitutional amendment calling for a balanced budget would play havoc with the cyclical nature of the economy. INCOME The nice gain in personal income in September should relieve fears of recession. Average weekly earnings are forecast as going up more rapidly (6.0 percent) in 1986 than in 1985 (3.5 percent). MONEY AND CREDIT It is believed here that there will be some relaxation of a mild nature. The gains in M1, for instance, that have taken place and that are forecast here for the next two years are in line with overall expansion. INTEREST RATES, YIELDS, AND SECURITIES PRICES As has been forecast for two years, expect generally high levels of rates with no general softening until late 1986 at the earliest. Any relaxing now will be of short duration. Look to the prime rate to edge ahead next year and then level near 12 percent toward the end of 1985 and near 11 percent in the latter part of 1986. For 1985 no significant ups or downs at the stock market and the bond market are anticipated.

0.02 OVERVIEW

In the last issue, reasons were given for the view that there would not be any recession in 1985 or 1986. These included the following points: federal deficits do create added demand, continued business profits lead to more purchasing power, and consumer buying will remain solid as employment levels hold.

In this current section, factors contributing to the KEDI expectation of slow growth are presented:

1. Consumer demand will not be rising as strongly as in 1984 because:
   a. Consumers have already made up for most of what they "lost" during 1981 and 1982 leaving any pent-up demand largely satisfied.
   b. Increments in increased employment will not be as large as they were in 1983 and 1984.
2. The business investment cycle is winding down. Large construction projects and highway repairs will end this year or next while the modernization of equipment also slows. This leaves the business investment stimulus less strong than in 1984.
3. The economy will not be as stimulated as it was in 1983 and 1984 by the federal budgets deficits. Federal deficits are seen as moving down and state and local surpluses moving up which means the total deficit of both levels can be counted on to decline. That adds less extra demand than in previous years.
4. Historically the average length of expansion periods of the U.S. economy has been four years. We have had two years of recovery so far. So, there should be two more--to be average, judging by historical standards. Actually, KEDI anticipates the present cycle will last longer than the four-year average. (Economic and business history repeats itself, but always with a difference.)

   It is expected that the present slowdown will last approximately one or one and a half year--a pause in the growth of the economy. The economy will start expanding more vigorously in late 1986. Forecast data for 1987 and 1988 show a strong expansion that coincides with starts of new housing and automobile cycles.

KEDI FORECAST HIGHLIGHTS

TABLE 0.00

Indicator	Unit	1984	1986	1987	1988
Gross national product	bil.72$	1640.4	1734.2	1798.4	1886.5
	% change	6.9	2.5	3.7	4.9
Index of industrial production	1967=100	163.6	172.4	183.1	199.2
	% change	10.8	2.4	6.2	8.8
Capacity utilization	%	81.8	81.1	81.9	82.3
	% change	12.3	-.6	1.0	.5
Unemployment rate	%	7.56	7.40	7.10	6.87
	% change	-21.1	-.4	-4.1	-3.3
Private housing starts	mil. units	1.791	1.613	1.952	2.173
	% change	5.1	-2.2	12.1	11.3
Car sales	mil. units	10.5	9.7	10.3	11.3
	% change	14.1	-3.0	5.9	9.8
Implicit GNP price deflator	1972=100	223.4	244.4	257.8	272.5
	% change	3.8	5.0	5.5	5.7
Consumer price index	1967=100	311.3	344.0	363.6	385.1
	% change	4.3	5.6	5.7	5.9
Producer price index (finished goods)	1967=100	291.5	319.5	341.5	364.0
	% change	2.2	6.5	6.9	7.0
Federal deficit	bil.$	-162.9	-149.3	-151.1	-144.7
	% change	-8.8	-5.8	-1.0	-3.4
Personal income	bil.$	3013.8	3544.8	3899.3	4328.2
	% change	9.8	8.2	10.0	11.0
Prime rate	%	12.10	11.34	10.42	9.27
	% change	13.1	-2.2	-8.1	-8.8
Mortgage rate	%	13.97	13.35	12.34	11.18
	% change	4.0	-2.2	-7.6	-9.4
Currency plus demand deposits	bil.$	543.0	598.5	636.8	680.1
	% change	6.7	5.1	6.4	6.8
Commercial and industrial loans	bil.$	470.6	510.9	528.8	558.9
	% change	13.9	3.5	3.5	5.7

Numbers in "% change" rows show percent changes over the previous year

0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, Assumptions No.1 and No.3 have been updated.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will be slightly lower; in 1986 it will go up to $30 per barrel; in 1987, to $32 per barrel; and in 1988, $33 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1986 period. Relaxation will start in 1986. It will continue in 1987.
4. In 1985, assume U.S. record crops, and in the U.S.S.R. and China, average crops will take place. In 1986 good crops in all main producing countries are anticipated.
6. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.
6. No drastic changes in international relationships are anticipated.

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the November 1984 KEDI forecast. In 1985 and 1986 a general slowdown is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years. Compared to the October forecast, no significant changes took place. Forecast data for 1984-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining. The export-import gap will start closing to a more sustainable level in 1987 and the following years.

TABLE 1.1 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1*	1984 2*	1984 3	1984 4	1984	% (1)
Gross national product	bil. 72$	1534.7	1610.9	1638.8	1649.6	1662.1	1640.4	6.9
Index of industrial production	1967=100	147.7	159.8	163.1	165.7	165.9	163.6	10.8
Unemployment rate	%	9.6	7.9	7.5	7.4	7.4	7.6	-21.1
Capacity utilization rate	%	72.5	80.6	81.6	82.6	82.3	81.8	12.3
Private housing starts	mil.	1.703	1.968	1.906	1.659	1.630	1.791	5.1
Car sales	mil.	9.2	10.6	10.6	10.5	10.3	10.5	14.1

Indicator	Unit	1984	1985 1	1985 2	1985 3	1985 4	1985	% (1)
Gross national product	bil. 72$	1640.4	1677.0	1685.9	1695.3	1709.2	1691.9	3.1
Index of industrial production	1967=100	163.6	166.8	168.4	168.8	169.6	168.4	2.9
Unemployment rate	%	7.6	7.5	7.4	7.4	7.5	7.4	-1.3
Capacity utilization rate	%	81.8	82.1	81.9	81.4	81.1	81.6	-.2
Private housing starts	mil.	1.791	1.617	1.703	1.757	1.522	1.650	-7.9
Car sales	mil.	10.5	10.3	10.2	9.9	9.7	10.0	-4.8

Indicator	Unit	1985	1986 1	1986 2	1986 3	1986 4	1986	% (1)
Gross national product	bil. 72$	1691.9	1716.9	1725.8	1739.4	1754.5	1734.2	2.5
Index of industrial production	1967=100	168.4	169.0	169.8	172.6	178.3	172.4	2.4
Unemployment rate	%	7.4	7.7	7.5	7.3	7.1	7.4	-.4
Capacity utilization rate	%	81.6	81.1	80.8	81.1	81.4	81.1	-.6
Private housing starts	mil.	1.650	1.488	1.554	1.728	1.673	1.613	-2.2
Car sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0

*Historical data (1) % change over previous year

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

There are continued signs of softening of the economy following the exhausting pace of the first part of this year. As pluses still exceed the minuses in terms of impact on the economy, there is no threat of recession. In September, various indicators of economic activity leveled or declined, and that is expected to continue in October to somewhat offset areas of expension and keep the quarterly figures at low-growth levels.

GNP expansion for the third quarter was at 2.7 percent--less than half of the second quarter pace. KEDI views the 2.7 percent as a needed adjustment. Actually, the true rate of growth was somewhat higher for the domestic economy if the net export negative total is not included here. Expect GNP to expand 7.0 percent this year and 3.0 percent in 1985.

The mixed economic news includes the following:

1. Construction spending edged ahead by 1.1 percent in September from the prior month.
2. Machine tool orders continued to gain in September putting the total improvement for the first three quarters at 83 percent above the like 1983 period.
3. The change in leading indicators was revised by the Commerce Department from a gain of 0.5 percent in August to a decline of 0.1 percent. The September data showed a gain of 0.4 percent.
4. Housing had some improvement, and car sales remained "okay."
5. Indications point to lackluster, slightly improved retail sales in October.
6. Steel production edged down in September. Early October data point to a slight improvement.
7. New orders for durables went down 4.4 billion to $97.6 billion.
8. Productivity at factories, mines, and utilities fell 0.6 percent in September due, in part, to the auto strike. That negative move is not viewed as the start of a trend. On the average, productivity remained the same in the third quarter as in prior quarter.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1984 1*	2*	3	4	1984	% (1)
Gross national product	bil. 72$	1534.7	1610.9	1638.8	1649.6	1662.1	1640.4	6.9
Personal cons. expenditures	bil. 72$	1009.2	1044.1	1064.3	1064.6	1083.1	1064.0	5.4
Gross private dom.investment	bil. 72$	221.0	285.6	283.9	299.2	290.6	289.8	31.1
Net exports	bil. 72$	12.6	-8.3	-11.5	-22.7	-23.4	-16.5	--
Federal govt. purchases	bil. 72$	116.2	112.2	123.2	127.4	129.3	123.0	5.9
State and local purchases	bil. 72$	175.7	177.3	178.9	181.1	182.5	180.0	2.4

Indicator	Unit	1984	1985 1	2	3	4	1985	% (1)
Gross national product	bil. 72$	1640.4	1677.0	1685.9	1695.3	1709.2	1691.9	3.1
Personal cons. expenditures	bil. 72$	1064.0	1094.2	1099.0	1109.3	1117.7	1105.1	3.9
Gross private dom.investment	bil. 72$	289.8	295.6	299.8	296.9	300.8	297.8	2.8
Net exports	bil. 72$	-16.5	-26.7	-28.4	-26.6	-29.4	-27.8	--
Federal govt. purchases	bil. 72$	123.0	130.5	131.3	132.1	133.7	131.9	7.2
State and local purchases	bil. 72$	180.0	183.4	184.2	185.6	186.9	184.9	2.7

Indicator	Unit	1985	1986 1	2	3	4	1986	% (1)
Gross national product	bil. 72$	1691.9	1716.9	1725.8	1739.4	1754.5	1734.2	2.5
Personal cons. expenditures	bil. 72$	1105.1	1120.9	1125.0	1128.7	1133.4	1127.0	2.0
Gross private dom.investment	bil. 72$	297.8	302.4	301.2	306.4	310.6	305.2	2.5
Net exports	bil. 72$	-27.8	-30.5	-28.1	-26.2	-23.1	-27.0	--
Federal govt. purchases	bil. 72$	131.9	137.0	139.5	141.2	143.7	140.4	6.4
State and local purchases	bil. 72$	184.9	187.1	188.2	189.3	189.9	188.6	2.0

*Historical data (1) % change over previous year

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

(Table 1.21 on page 9)

The forecast data for prices remains essentially the same, but the data base for the Consumer Price Index has been switched which accounts for the difference in figures. ATTENTION. At the request of some customers, starting in this issue, KEDI will report the actual and forecast data for the CPI as those calculated for the ALL URBAN CONSUMERS (CPI-U). Previously reported data pertained to the REVISED CONSUMER PRICE INDEX FOR WAGE EARNERS AND CLERICAL WORKERS (CPI-W). The difference between the CPI-U and the CPI-W can be seen from the following table set up in the same way as Table 1.21 on page 9. Data in the upper lines are those KEDI used to report the CPI in prior issues(CPI-W). Data in the lower lines (CPI-U) are the ones that appear in Table 1.21 starting in this issue and replacing the old series.

CONSUMER PRICE INDEXES

	Unit	1983	1984 1	2	3	4	1984
Consumer Price Index (CPI-W)	1967=100	297.4	303.1	305.2	307.3	309.8	306.3
Consumer Price Index (CPI-U)	1967=100	298.4	306.4	309.7	313.1	315.8	311.3
	Unit	1984	1985 1	2	3	4	1985
Consumer Price Index (CPI-W)	1967=100	306.3	313.3	317.7	323.2	327.1	320.3
Consumer Price Index (CPI-U)	1967=100	311.3	318.9	322.8	328.9	333.8	326.1
	Unit	1985	1986 1	2	3	4	1986
Consumer Price Index (CPI-W)	1967=100	320.3	331.9	335.0	339.4	343.8	337.5
Consumer Price Index (CPI-U)	1967=100	326.1	338.0	342.1	345.7	350.2	344.0

In September, consumer prices moved ahead by 0.4 percent which adds confirmation to the forecast here of moderate price increases this year first forecast here a year ago. The September figure included a 0.1 percent decline in food and beverage prices, a 0.6 percent rise in apparel prices, 0.5 for transportation costs, and a 0.4 percent increase in housing costs.

KEDI shares the view of Joel Popkin that prices will be going up a bit faster next year due to the stabilizing of the value of the dollar. Mr. Lawrence Kudlow cites the rapid growth of the money supply of last year

TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Consumer price index, n.s.a.**	1967=100	298.4	306.4	309.7	313.1	315.8	311.3	4.3
Producer price index, n.s.a.**	1967=100	285.2	290.6	291.4	291.4	292.6	291.5	2.2
Price deflators:								
GNP	1972=100	215.2	220.6	222.4	224.4	226.0	223.4	3.8
Personal cons. expenditures	1972=100	213.6	218.0	219.2	221.6	222.6	220.4	3.2
Gross private dom.investment	1972=100	215.4	218.5	220.8	220.8	223.0	220.8	2.5
Federal purchases	1972=100	234.9	243.3	246.7	241.5	243.1	243.7	3.7

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Consumer price index, n.s.a.**	1967=100	311.3	318.9	322.4	328.9	333.4	326.1	4.7
Producer price index, n.s.a.**	1967=100	291.5	294.7	297.5	301.3	306.5	300.0	2.9
Price deflators:								
GNP	1972=100	223.4	227.7	231.6	234.8	235.9	232.8	4.2
Personal cons. expenditures	1972=100	220.4	225.7	229.1	232.5	235.6	230.7	4.7
Gross private dom.investment	1972=100	220.8	224.0	224.9	226.7	227.2	225.7	2.2
Federal purchases	1972=100	243.7	246.2	246.1	247.8	248.3	246.6	1.9

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Consumer price index, n.s.a.**	1967=100	326.1	338.0	342.1	345.7	350.2	344.0	5.6
Producer price index, n.s.a.**	1967=100	300.0	311.8	316.2	321.7	328.2	319.5	6.5
Price deflators:								
GNP	1972=100	232.8	239.6	242.4	246.5	249.1	244.4	5.0
Personal cons. expenditures	1972=100	230.7	240.2	243.8	249.2	252.6	246.5	6.8
Gross private dom.investment	1972=100	225.7	228.0	229.4	230.6	232.1	230.0	1.9
Federal purchases	1972=100	246.6	249.6	250.7	251.4	253.3	251.3	1.9

*Historical data (1) % change over previous year **CPI: All Urban Consumers; PPI: Finished Goods

PRICES

as leading us to inflation of 6-7 percent in 1985. KEDI does not share that view. Look to inflation of 4.7 percent in 1985 and 5.6 percent in 1986.

There are no essential changes in the Producer Price Index forecast (PPI). Prices of crude goods other than food and energy gained 1.2 percent in September, and that points to producer prices starting more of an upward trend.

1.22 NOMINAL GNP

(Table 1.22 on page 11)

The KEDI forecast of nominal GNP and components remains essentially unchanged when compared to the forecast published in the prior issue of this Survey. Data for Personal Consumption Expenditures and Federal and State and Local Expenditures has been insignificantly changed for the 1984 - 1986 forecast period: Data point to a healthy growth in personal consumption purchases and to a moderate and slowing growth in federal and state and local purchases.

For 1985 and 1986, projections for Gross Private Domestic Investment have been increased abd those for Net Exports have been reduced. Now it is expected that gross private domestic investment will grow faster than previously reported mainly due to the upward revised forecast of residential construction and more inventory increases in that period.

The outlook for foreign trade is a bit more pessimistic: the downward revision of Net Exports has been caused mainly by the upward adjustment of forecast data for imports of raw materials and machinery.

TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Gross national product	bil.$	3304.8	3553.3	3644.7	3701.2	3756.3	3663.9	10.9
Personal cons. expenditures	bil.$	2155.9	2276.5	2332.9	2359.3	2410.7	2344.9	8.8
Gross private dom.investment	bil.$	471.6	623.8	626.8	660.5	660.2	642.8	36.3
Net exports	bil.$	-8.3	-51.5	-58.8	-85.5	-94.7	-72.6	--
Federal purchases	bil.$	269.7	267.6	296.4	307.7	314.3	296.5	9.9
State and local purchases	bil.$	415.8	436.8	447.4	459.2	465.8	452.3	8.8

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Gross national product	bil.$	3663.9	3818.5	3904.5	3980.6	4032.0	3933.9	7.4
Personal cons. expenditures	bil.$	2344.9	2469.2	2518.1	2600.9	2633.6	2555.5	9.0
Gross private dom.investment	bil.$	642.8	662.1	694.3	668.5	683.4	677.1	5.3
Net exports	bil.$	-72.6	-98.6	-102.6	-84.3	-100.8	-99.1	--
Federal purchases	bil.$	296.5	318.7	323.1	327.3	332.0	325.3	9.7
State and local purchases	bil.$	452.3	467.2	471.6	478.2	483.8	475.2	5.1

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Gross national product	bil.$	3933.9	4113.7	4183.4	4287.6	4370.5	4238.8	7.8
Personal cons. expenditures	bil.$	2555.5	2692.6	2743.3	2812.4	2863.5	2778.0	8.7
Gross private dom.investment	bil.$	677.1	689.5	691.0	706.6	720.9	702.0	3.7
Net exports	bil.$	-99.1	-96.4	-89.6	-80.2	-75.4	-85.4	--
Federal purchases	bil.$	325.3	342.0	350.0	355.0	364.1	352.8	8.5
State and local purchases	bil.$	475.2	486.0	488.7	493.8	497.5	491.5	3.4

*Historical data (1) % change over previous year

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast is basically the same for the rate of joblessness. Look to it to remain close to 7.4 percent through next year. The expected growth of the civilian labor force has been slightly altered for 1985 and 1986 with the size being forecast at 123 million in the last quarter of 1986, for example, instead of 124 million cited in the prior issue.

During the next two years, the main increases in employment are expected in service-producing industries. In 1985, expect 1.5 million new jobs in the service-producing industries and approximately 0.5 million added jobs in goods-producing industries. During 1986, expect about 1 million new jobs. Almost all of these will be in the service sector. The breakdown by industry shows the following:

1. Industries that will absorb most of the new jobs are fast food, hotels, restaurants, retail trade, repairs, construction, electronics, machine tools, plastics, and the defense industry.
2. Industries that will still have problems with total jobs declining will be iron ore and copper mining, steel and ferrous metals, aluminum, stone and glass products, furniture and fixtures, lumber, and nonelectrical machinery.
3. Employment is forecast as remaining essentially flat in the rubber, chemicals, electrical machinery, wholesale trade, railroads, trucking, printing and publishing, paper and products, banking and real estate, petroleum and products industries.

Unemployment has remained quite steady with the July and August percent being 7.5 and the September and October figure being to 7.4 percent.

Expect the fourth quarter average to be near 7.41 percent as revised from 7.26 in the prior issue.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Population	mil.	223.9	235.8	236.7	237.8	238.9	237.3	1.3
Civilian labor force	mil.	111.6	112.6	113.6	114.7	115.3	114.1	2.2
Employment	mil.	100.8	103.7	105.1	106.3	106.8	105.5	4.6
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	--
Nonagriculture	mil.	97.5	100.4	101.7	102.9	103.4	102.1	4.7
Unemployment rate	%	9.58	7.87	7.48	7.46	7.41	7.56	-21.1

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Population	mil.	237.3	239.8	240.9	242.3	243.7	241.6	1.8
Civilian labor force	mil.	114.1	116.4	117.1	118.0	118.9	117.6	3.1
Employment	mil.	105.5	107.7	108.5	109.3	110.0	108.9	3.2
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	--
Nonagriculture	mil.	102.1	104.3	105.1	105.9	106.6	105.5	3.3
Unemployment rate	%	7.56	7.45	7.38	7.41	7.48	7.43	-1.3

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Population	mil.	241.6	243.5	244.1	245.0	245.8	244.6	1.2
Civilian labor force	mil.	117.6	119.5	120.7	121.9	123.0	121.3	3.1
Employment	mil.	108.9	110.3	111.7	113.0	114.2	112.3	3.1
Agriculture	mil.	3.4	3.4	3.4	3.4	3.4	3.4	--
Nonagriculture	mil.	105.5	106.9	108.3	109.6	110.8	108.9	3.2
Unemployment rate	%	7.43	7.67	7.46	7.31	7.14	7.40	-.4

*Historical data (1) % change over previous year

1.40 HOUSING AND AUTOMOBILES

1.41 HOUSING

(Table 1.41 on page 15)

The projection for housing starts and housing permits has been increased marginally when compared to data in the prior issue. As can be seen on Table 1.41, housing gains this year will be in the range of 2.5 percent (single-family starts) to 9.6 (multifamily starts) over the prior year. Both will decline fairly sharply next year with the single-family sector bearing the brunt of the decline. The drop is forecast at over 9 percent. During the following year declines will be quite slight with recovery expected by KEDI no earlier than late 1986.
The reasons for the forecast were discussed in earlier issues. Basically, the demand has been largely satisfied, rates for mortgages are relatively high as are the prices of new homes.

Housing starts jumped ahead by 8.9 percent in September, seasonally adjusted. The gain was attributed to a fractional decline in mortgage rates. As Jesse Abraham of Data Resources stated, the strong showing for September would not alter the housing scheme "all that much." (The Wall Street Journal Oct. 18, 1984.) The view of Michael Carliner of Chase Econometrics that housing starts will stay in the 1.5-1.6 million range in the foreseeable future is shared here.

Building permits issued were off 5.4 percent in September as they were issued at an adjusted annual rate of 1.4 million. Last September, the rate was at 1.54 million.

Sales Sales of new single-family homes had declined 8.8 percent in August and rebounded in September by jumping ahead 21.9 percent. That jump is seen as temporary partly due to anticipatory buying--responding to a fractional drop in mortgage rates and expecting rates to move up again. Housing resales were off 1.1 percent for the fifth month of decline. The median price of a new home was at $80,000 in September with the average price being $100,000 while the median price of a resale home was $72,600.

On average, KEDI expects prices of new homes to go up by 5.2 percent in 1985 compared to this year's average, and by 4.8 percent in 1986 compared to 1985.

TABLE 1.41 HOUSING

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Single-family housing starts	mil.	1.068	1.278	1.138	.983	.979	1.095	2.5
Multifamily housing starts	mil.	.635	.690	.768	.676	.651	.696	9.6
Mobile home shipments	mil.	.296	.298	.294	.311	.306	.302	2.0
Permits authorized	mil.	1.594	1.809	1.743	1.497	1.416	1.616	1.4
1-family unit price, new**	tho.$	89.8	94.7	96.5	99.0	99.7	97.5	8.6
1-family unit price,existing**	tho.$	82.5	86.5	88.7	91.8	92.5	89.9	9.0

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Single-family housing starts	mil.	1.095	.985	1.014	1.056	.908	.991	-9.5
Multifamily housing starts	mil.	.696	.632	.689	.701	.614	.659	-5.3
Mobile home shipments	mil.	.302	.279	.285	.284	.248	.279	-7.6
Permits authorized	mil.	1.616	1.486	1.548	1.536	1.405	1.494	-7.5
1-family unit price, new**	mil.	97.5	101.2	102.4	103.6	103.2	102.6	5.2
1-family unit price,existing**	mil.	89.9	93.4	94.0	96.0	96.1	94.9	5.6

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Single-family housing starts	mil.	.991	.902	.951	1.069	.995	.979	-1.1
Multifamily housing starts	mil.	.659	.586	.603	.659	.678	.634	-3.8
Mobile home shipments	mil.	.279	.236	.239	.264	.285	.256	-8.2
Permits authorized	mil.	1.494	1.384	1.451	1.592	1.627	1.514	1.3
1-family unit price, new**	mil.	102.6	103.3	104.2	108.9	113.4	107.5	4.8
1-family unit price,existing**	mil.	94.9	96.7	97.8	99.0	101.6	98.8	4.1

*Historical data (1) % change over previous year **Seasonally not adjusted

1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast remains the same for the rest of this year and is adjusted fractionally upwards for the first half of 1985. That slight gain is due mainly to the following factors:

1. There is a downward revision of the forecast of interest rates for the first half of 1985 which means a resulting increase in ability to buy a new car.

2. The Canadian strike had not been anticipated, and that reduced GM sales. KEDI expects the results of the Canadian strike will spread a bit during the rest of this year. Thus, those planning to buy a new car will wait a bit longer. KEDI shares the view of Fabian Linden of the Conference Board that some set their minds on one model, and if they cannot get it, they will wait.

This revision has not, however, affected the trend. KEDI maintains the position that car sales in 1985 will be weaker than in the current year, and in 1986 there will be a further slowing.

U.S. auto sales were still going at a good clip in early October with the daily selling rate being up 4.1 percent from the first 10 days of October in the previous year.

In mid-October domestic auto sales were off by 6.5 percent--mostly due to the strike against GM as their sales were 16 percent lower. Ford sales were up by 10 percent, and Chrysler gained by 8.1 percent in mid-October.

For the year to date, through October 20, sales were 20.7 percent ahead of the comparable period of 1983. Sales came to just over 6.54 million so far this year.

The forecast of light-duty truck sales remains unchanged when compared to the prior issue.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Passenger cars:								
Total sales	mil.	9.2	10.6	10.6	10.5	10.3	10.5	14.1
Domestic	mil.	6.8	8.3	8.2	8.0	7.8	8.1	19.1
Imported	mil.	2.4	2.3	2.4	2.4	2.4	2.4	1.0
Dealers inventories,n.s.a.	mil.	1.4	1.6	1.3	1.2	1.4	1.4	.0
Factory shipments	mil.	6.7	8.3	8.0	7.9	7.8	8.0	19.7
Light-duty trucks:								
Total sales	mil.	2.5	3.0	3.2	3.1	2.9	3.0	20.0

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Passenger cars:								
Total sales	mil.	10.5	10.3	10.2	9.9	9.7	10.0	-4.8
Domestic	mil.	8.1	7.9	7.8	7.4	7.3	7.6	-6.2
Imported	mil.	2.4	2.5	2.5	2.4	2.4	2.5	.5
Dealers inventories,n.s.a.	mil.	1.4	1.6	1.7	1.6	1.5	1.5	.0
Factory shipments	mil.	8.0	7.6	7.7	7.5	7.5	7.6	-8.3
Light-duty trucks:								
Total sales	mil.	3.0	2.5	2.8	3.0	2.8	2.8	-6.7

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Passenger cars:								
Total sales	mil.	10.0	9.5	9.7	9.6	9.8	9.7	-3.0
Domestic	mil.	7.6	7.1	7.4	7.2	7.3	7.3	-2.8
Imported	mil.	2.5	2.4	2.3	2.4	2.5	2.4	-.4
Dealers inventories,n.s.a.	mil.	1.5	1.9	1.8	1.7	1.5	1.5	.1
Factory shipments	mil.	7.6	7.3	7.3	7.0	7.0	7.2	-3.1
Light-duty trucks:								
Total sales	mil.	2.8	2.7	2.8	2.7	2.6	2.7	-3.6

*Historical data (1) % change over previous year

1.50 BUDGETS

(Table 1.50 on page 19)

KEDI has maintained for years that:

1. Interest rates are not directly related to federal budget deficits,
2. Cutting the deficit is done most effectively on the expenditure side and not by raising taxes.

Now some other voices begin to support the assertions held here. First, Citicorp chairman Walter Wriston publically doubted the conventional wisdom that ties high deficits to high interest rates. The interest rate is much lower today than it was when the deficit was around half of what it is now. As he said, "I keep hearing people say that high deficits cause a high rate of interest, but I can't find it in the facts and that's very confusing." (Akron Beacon Journal, October 14, page A14.)

KEDI has long held the view that Exxon Chairman Clifton Garvin, Jr. expressed about feeling that if taxes were raised, the added income would be spent rather than being applied to deficit reduction.

Balanced Budget? Of 34 states required to have a constitutional convention to consider an amendment to require budget balancing, 32 have filed requests. Such a convention would be opening a Pandora's Box of related topics of taxes and spending. The position at KEDI is that an amendment would do more harm than good. The central economic (not political) argument against it is an economy pursues cyclical developments--budget deficits and surpluses have either to follow or to act against the cycles. A budget made to steadily balance at all phases of the cycle may falsely alter the pace of the economy. Cycles are natural--a rigid budget would not be natural or fit into business cycles.

Secondly, a balanced, rigid federal budget would not fit in with the state and local budgets. These have surpluses and they are permanently growing. If the federal budget was balanced and the state and local budgets had surpluses, the budget for the entire Government would show an enormous surplus. Such a situation may have catastrophic consequences: It could drive the economy into a decline or possibly into a long-lasting depression.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Federal government:								
Income taxes	bil.$	295.2	301.6	310.7	321.9	328.4	315.7	6.9
Corpor.profits tax accruals	bil.$	59.8	73.0	75.6	77.9	80.0	76.6	28.1
Surplus/deficit	bil.$	-178.6	-161.3	-163.7	-164.5	-162.1	-162.9	-8.8
State and local governments:								
Income taxes	bil.$	109.0	116.7	119.6	121.0	125.3	120.7	10.7
Corpor.profits tax accruals	bil.$	16.0	19.7	20.2	21.4	21.8	20.8	30.0
Surplus/deficit	bil.$	44.1	53.9	54.5	55.8	59.1	55.8	26.5

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Federal government:								
Income taxes	bil.$	315.7	335.4	341.8	346.8	353.9	344.5	9.1
Corpor.profits tax accruals	bil.$	76.6	81.2	84.6	85.1	87.0	84.5	10.3
Surplus/deficit	bil.$	-162.9	-164.2	-160.1	-159.0	-150.6	-158.5	-2.7
State and local governments:								
Income taxes	bil.$	120.7	128.2	131.6	136.7	138.5	133.8	10.9
Corpor.profits tax accruals	bil.$	20.8	22.7	24.6	25.3	26.8	24.9	19.7
Surplus/deficit	bil.$	55.8	61.3	64.7	69.0	71.8	66.7	19.5

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Federal government:								
Income taxes	bil.$	344.5	364.8	370.9	380.4	385.6	275.4	9.0
Corpor.profits tax accruals	bil.$	84.5	88.2	89.1	93.4	97.9	92.2	9.1
Surplus/deficit	bil.$	-158.5	-152.3	-154.1	-146.7	-144.2	-149.3	-5.8
State and local governments:								
Income taxes	bil.$	133.8	140.2	141.7	144.2	147.3	143.4	7.2
Corpor.profits tax accruals	bil.$	24.9	27.2	28.5	30.8	32.0	29.6	18.9
Surplus/deficit	bil.$	66.7	72.6	73.5	76.7	77.9	75.2	12.7

*Historical data (1) % change over previous year

BUDGETS

There is no change here in the forecast for state and local budgets. As is shown in Table 1.50 the surplus will gain by 8.3 percent during this year. Look to it to expand by close to 19 percent in 1985 and over 13 percent in 1986.

1.60 INCOME

(Table 1.60 on page 21)

Personal income rose a healthy 0.9 percent in September and consumer spending was up by 1.4 percent. KEDI heartily agrees with the view that such gains blank out recession fears.

As can be seen from Table 1.60, 1985 will have a gain in personal income at close to the level of 1984: approximately 9 percent. Even 1986 shows a gain of 8 percent over 1985, and personal disposable income is forecast as rising the same that year. Still, the picture for 1986 is somewhat clouded with a significant slowdown in the first part and no significant pick up before the end of that year. Forecast data show positive trends for average weekly earnings as they will be going up close to 4 percent next year and near 6 percent in 1986.

Less encouraging news comes from factory earnings which was the only major category to show a drop in September. There was a loss of over 120,000 factory jobs, according to the Labor Department. The drop is temporary. As it is seen from Table 1.60 the "Compensation of employees" data show a healthy 8.5 percent increase in 1985 over 1984. That is in line with increments of personal income and personal disposable income for that year. A comparison of "Compensation of employees" data with those for personal income and personal disposable income for 1986 also looks "okay."

No significant changes in forecast data for corporate after-tax profits took place when compared to the last month's forecast.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Personal income	bil.$	2744.2	2920.5	2982.3	3047.7	3104.7	3013.8	9.8
Personal disposable income	bil.$	2340.1	2502.2	2554.3	2604.8	2651.0	2578.1	10.2
Compensation of employees	bil.$	1984.9	2113.4	2159.2	2191.2	2261.2	2181.3	9.9
Corporate after tax profits	bil.$	127.4	150.6	150.2	153.7	151.5	151.5	18.9
Personal saving	bil.$	118.1	152.5	146.8	164.7	158.2	155.6	31.8
Average weekly earnings	$	354.5	366.2	370.1	368.9	369.1	368.6	4.0

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Personal income	bil.$	3013.8	3176.3	3232.4	3327.3	3371.6	3276.9	6.7
Personal disposable income	bil.$	2578.1	2712.7	2759.0	2843.8	2879.2	2798.7	8.6
Compensation of employees	bil.$	2181.3	2320.7	2364.5	2387.5	2396.8	2367.4	8.5
Corporate after tax profits	bil.$	151.5	155.8	160.4	168.7	170.1	163.8	8.1
Personal saving	bil.$	155.6	160.1	158.7	159.4	161.3	159.9	2.8
Average weekly earnings	$	368.6	373.2	378.9	384.7	389.2	381.5	3.5

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Personal income	bil.$	3276.9	3440.3	3501.0	3587.4	3650.4	3544.8	8.2
Personal disposable income	bil.$	2798.7	2935.3	2988.4	3062.8	3117.5	3026.0	8.1
Compensation of employees	bil.$	2367.4	2460.7	2490.1	2576.8	2620.9	2537.1	7.4
Corporate after tax profits	bil.$	163.8	171.8	173.4	183.2	189.9	179.6	9.6
Personal saving	bil.$	159.9	157.5	159.2	164.3	167.6	162.2	1.4
Average weekly earnings	$	381.5	395.6	399.2	407.6	416.4	404.7	6.1

*Historical data (1) % change over previous year

1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

KEDI anticipates that the Federal Reserve Open Market Committee will vote some relaxation of monetary and credit policies at the November 7 meeting. Secretary of the Treasury Donald Regan indicated that any easing of money over the next several months would mean some continuation of the decline in interest rates. KEDI agrees. It is assumed here that the loosening will be quite slight and also fairly temporary.

Reasons for relaxing being seen as short in duration and undramatic in depth are presented here.

1. Any significant drop in interest rates would discourage foreign investment and divert foreign funds from helping to finance our federal deficits.

2. There is no real need for substantial drops in interest rates. One of the main factors that was pushing them upwards was strong consumer demand for durables which the unprecedented surge in consumer credit documents most convincingly. A strong consumer demand persists even NOW and it is not seen as abating in the foreseeable future.

3. The money supply "behaves well." The increase in M1 and other monetary aggregates are in line with the overall growth of the economy. For example, data on M1 for July-October show an increase of $3 billion. That is compatible with the growth of the economy for that period. Any significant gain in the current growth of monetary aggregates could lead to renewed inflation concerns of a real kind.

4. There is no recession forecast over the next few years. Growth is seen as moderate and sustained, and excess money and credit stimulus would necessarily be inflationary.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Currency and demand deposits,M1	bil.$	509.0	532.7	540.8	547.1	551.4	543.0	6.7
Time deposits, adjusted,M2	bil.$	2115.9	2217.3	2257.7	2293.0	2367.8	2284.0	7.9
Consumer instal. credit	bil.$	387.9	402.5	427.6	441.5	449.7	449.7	15.9
Commerc. & indus. loans at banks	bil.$	413.0	428.2	453.2	463.8	470.6	470.6	13.9
Large denomination time dep.	bil.$	307.5	340.7	354.1	347.1	356.2	349.5	13.7
Mortgages at S&L Assns.	bil.$	493.4	502.1	526.8	532.8	538.3	538.3	9.1

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Currency and demand deposits,M1	bil.$	543.0	562.1	568.4	571.1	575.2	569.2	4.8
Time deposits, adjusted,M2	bil.$	2284.0	2410.6	2468.5	2514.2	2557.3	2487.7	8.9
Consumer instal. credit	bil.$	449.7	453.2	456.7	460.3	465.8	465.8	3.6
Commerc. & indus. loans at banks	bil.$	470.6	479.2	489.5	491.3	493.6	493.6	4.9
Large denomination time dep.	bil.$	349.5	355.8	356.2	362.7	369.4	361.0	3.3
Mortgages at S&L Assns.	bil.$	538.3	540.7	548.6	551.2	553.7	553.7	2.9

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Currency and demand deposits,M1	bil.$	569.2	583.4	590.7	604.1	615.9	598.5	5.1
Time deposits, adjusted,M2	bil.$	2487.7	2636.5	2698.7	2764.2	2835.7	2733.6	9.9
Consumer instal. credit	bil.$	465.8	468.2	471.3	478.6	485.7	485.7	4.3
Commerc. & indus. loans at banks	bil.$	493.6	495.7	497.3	504.1	510.9	510.9	3.5
Large denomination time dep.	bil.$	361.0	374.5	379.8	378.4	376.5	377.3	4.5
Mortgages at S&L Assns.	bil.$	553.7	555.1	557.4	563.6	570.8	570.8	3.1

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

KEDI maintains the position that was first expressed over two years ago:

1. Interest rates will remain at high levels--a decline from something like 13 percent to 12 percent still leaves them high by historic standards.
2. Federal Reserve monetary and credit policies will remain tight. Look to general softening no earlier than late 1986.

This Institute agrees with the view that any declines are going to be rather short-lived and not very large as expressed by Alan Greenspan of Townsend-Greenspan and Irwin Kellner of Manufacturers Hanover Trust. KEDI even agrees with Henry Kaufman of Salomon Brothers that the interest rate declines have just been a "pleasant interlude."

However, the view of Mr. Kellner predicting the prime rate would jump back up to 13 percent by the end of the year and 14 percent by mid-1985 is strongly disagreed with here. As can be seen in Table 1.80 the prime rate is seen as averaging 12.02 in the last quarter of this year, 11.0 in the first quarter of the next year, 11.10 in the second quarter, and 12.0 in the third quarter of 1985. That shows moderate increases followed by a stabilizing.

To speak of easing, one has to keep in mind the prime rate was at 11 percent in the first part of this year. That is, it means easing from the July-August peaks AND NO MORE.

The forecast of the stock and bond markets remain essentially the same with present rallies viewed as temporary. The post-election downturn will not be as deep as previously anticipated which has lead to some slight upward revision in the forecast for the first quarter of 1985.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1983*	1*	2*	1984 3	4	1984	% (1)
Treasury bills (3 mo yield)	%	8.61	9.17	9.81	10.27	8.86	9.63	11.8
Prime rate	%	10.70	11.08	12.31	13.00	12.02	12.10	13.1
Conventional mortgage rate	%	13.43	13.57	13.98	14.45	13.89	13.97	4.0
Aaa corporate bonds rate	%	12.04	12.28	12.97	13.14	12.41	12.70	5.5
20 years Govt. bonds yield	%	11.34	12.16	12.68	12.64	12.27	12.44	9.7
Standard & Poor's 500 Average	1941-43 =100	160.41	160.02	160.04	162.12	164.17	161.58	.7

Indicator	Unit	1984	1	2	1985 3	4	1985	% (1)
Treasury bills (3 mo yield)	%	9.63	8.74	9.05	9.24	10.98	9.32	-3.2
Prime rate	%	12.10	11.00	11.10	12.00	12.24	11.59	-4.2
Conventional mortgage rate	%	13.97	13.64	13.54	13.72	13.80	13.65	-2.3
Aaa corporate bonds rate	%	12.70	11.72	11.30	11.56	12.47	11.76	-7.4
20 years Govt. bonds yield	%	12.44	11.86	11.43	11.51	11.86	11.67	-6.2
Standard & Poor's 500 Average	1941-43 =100	161.58	162.37	160.85	158.27	156.34	159.46	-1.3

Indicator	Unit	1985	1	2	1986 3	4	1986	% (1)
Treasury bills (3 mo yield)	%	9.32	11.06	10.45	9.14	8.04	9.47	1.6
Prime rate	%	11.59	12.30	12.10	10.82	10.12	11.34	-2.2
Conventional mortgage rate	%	13.65	13.95	13.64	13.08	12.73	13.35	-2.2
Aaa corporate bonds rate	%	11.76	12.65	12.32	11.89	11.14	12.00	2.0
20 years Govt. bonds yield	%	11.67	12.13	12.47	11.86	11.43	11.97	2.6
Standard & Poor's 500 Average	1941-43 =100	159.46	154.28	149.38	150.45	159.84	153.49	-3.8

*Historical data (1) % change over previous year

2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

This November 1984 issue describes the relationships between the Kent Model's Aggregative Division and the Financial Division.

6.00 NATIONAL INCOME AND PRODUCT DATA AND THE FLOW OF FUNDS DATA

The Kent Model's Financial Division is represented by 23 financial sectors of the U.S. economy and 43 markets on financial instruments. The representation of financial sectors and financial markets corresponds with that used by the Board of Governors of the Federal Reserve System in its Flow-of-Funds Tables (See: Flow of Funds Accounts, Publication Z.1, monthly, Board of Governors of the Federal Reserve System, Washington, D.C., and other Board of Governors of the Federal Reserve System publications on Flow of Funds.)

6.10 FINANCIAL SECTORS

In the Kent Model the sectoral breakdown is the following:

NAME	NUMBER OF SECTORS
HOUSEHOLDS	1
BUSINESS	1
FEDERAL GOVERNMENT	1
STATE AND LOCAL GOVERNMENTS	2
FEDERALLY SPONSORED CREDIT AGENCIES	1
MONETARY AUTHORITIES	1
COMMERCIAL BANKS	3
SAVING INSTITUTIONS	3
OTHER NONBANK FINANCE	8
REST OF THE WORLD	1
SECTORAL DISCREPANCIES	1
TOTAL	23

Each sector is represented by its financial assets and financial liabilities. In each sector, ordering of assets and liabilities follows the ordering used in the Board of Governors Flow of Funds Tables.

THE KENT ECONOMIC FORECASTING SYSTEM

6.20 FINANCIAL MARKETS

The market breakdown is the following:

NAME	NUMBER OF MARKETS
MONETARY AND INSURANCE RESERVES	12
DEPOSITS	4
U.S. GOVERNMENT SECURITIES	3
STATE AND LOCAL GOVERNMENT SECURITIES	1
PRIVATE SECURITIES	2
MORTGAGES	2
CONSUMER CREDIT	2
BANK LOANS	4
SECURITY CREDIT, TRADE CREDIT, AND TAXES	4
MISCELLANEOUS	8
TRANSACTIONS DISCREPANCIES	1
TOTAL	43

Compared to the Board of Governors of the Federal Reserve System Flow of Funds Tables, the Kent Model's financial markets correspond to the Flow of Funds transactions.

In the Kent Model, each financial market is represented by sets of financial assets of sectors (the demand side of each market) nad by sets of financial liabilities of sectors (the supply side of each market.) In the Model's historical data base and in the forecasts outputs each market is represented as cleared, i.e. in equilibrium. That means in each market the total of sectors' financial assets entering that market equals the total of sectors' liabilities of that market plus exogenous transactions discrepancy for that market.

(CONTINUED)

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Nonresidential Fixed Investment in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.6, June 1984, Table 1.1. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS
(Nonresidential Fixed Investment, 1983, bil. $)

Actual figure: 347.7

Forecaster(and page in source)	Date of Forecast	Forecast	Accuracy (%)
Albert T. Sommers, The Conference Board,pg 8	11/17/82	350.0	.7
Calvin R. Myers, The Merchants National Bank of Aurora, pg 10	12/82	351.0	.9
Walter D. Fackler, University of Chicago, pg 12	12/8/82	351.0	.9
J.A. Livingston, pg 14	12/27/82	333.0	-4.4
Manufacturers Hanover Trust Company, pg 22	12/82	335.4	-3.5
UCLA Business Forecasting Project, pg 23	12/82	332.3	-4.4
Metropolitan Life Insurance Company, pg 24	12/1/82	352.3	1.3
The Fidelity Bank, pg 25	12/8/82	345.0	-.8
Citibank Economic Forecasting Service, pg 26	12/9/82	352.8	1.3
Data Resources, Inc., pg 28	12/24/82	331.3	-4.7
Chase Econometrics, pg 29	12/29/82	344.1	-1.0
Kent Economic and Development Institute,pg 30	1/1/83	355.4	2.2
Standard & Poor's Corporation, pg 34	1/6/83	335.1	-3.6
Morgan Guaranty Trust Company of New York,pg 35	1/7/83	336.2	-3.3

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.),Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

TABLE 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.11 SELECTED INDICATORS OF REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 REAL GNP	Gross national product, 1972$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 PRICES	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators:	
	GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Gross private dom. investment	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
1.22 NOMINAL GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

TABLE 3.00 HISTORICAL DATA SOURCES (CONTINUED)

Table No.	Data Series	Source
1.41 HOUSING	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, blue pages
	Light-duty truck sales	SCB, blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/deficit	SCB, Table 3.2
	State and local govts.:Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits,M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield	FRB, Table 1.10
	Prime rate	FRB, Table 1.33
	Conventional mortgages rate	FRB, Table 1.10
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.10
	Standard & Poor's 500 average	FRB, Table 1.36